

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 LILONGWE 000188

SIPDIS

AIDAC

USAID FOR AFR/DP SMITH, KNEPP
USAID FOR AFR/SD WESTNEAT, SIEGEL
USAID FOR AFR/SA TOURE, HAGELMAN, LOKEN, FLEURET
USAID FOR PPC/AA FELDSTEIN
USAID FOR EGAT/PR/MD, CHALMERS, FIELD, YOUNG
DEPT FOR AF/S, INR/CGI, PM/ISP

E.O. 12958: N/A

TAGS: [EAID](#) [EAGR](#) [ECON](#) [EINV](#) [EFIN](#) [ETRD](#) [KMCA](#) [MI](#)

SUBJECT: NATIONAL ACTION GROUP

1. Summary: Over the past year, Malawi has seen a remarkable reversal in the level of importance the GOM has placed on the role of the private sector in contributing to economic growth and poverty reduction. Now, more than ever, the US Mission is uniquely positioned to contribute significantly to the advancement of prosperity by increasing economic growth through expanded trade and investment. While this most positive development began to take root several years ago with the creation of the National Action Group NAG - a senior level forum for the discussion and resolution of issues that affect the performance of the private sector in Malawi - it has now become a national priority for the new Government. The NAG, with USG support, has achieved a number of successes through improved dialogue. Central has been the development of the Malawi Economic Growth Strategy which has become a key document for the GOM on how to address problems with the development of a thriving private sector that can generate growth, jobs, exports, improved incomes and governmental revenues. While many of these solutions have been incremental and opportunistic, they typify this new, more collaborative approach toward improving the business climate in Malawi.

2. The country's new President, Bingu Wa Mutharika, who assumed responsibility for development of the Malawi Economic Growth Strategy while former Minister of Economic Development, now serves as the major champion in the process of transforming the economy from one predominantly owned and controlled by the state to one where private sector actors and decision makers are the engine of economic growth. The President underlined this important policy shift in his "Road to Prosperity" inaugural speech, setting the stage for future private sector reforms: I am convinced that the roadmap to prosperity dictates that we should have effective private sector reforms that aim at creating a conducive and enabling environment for domestic and foreign investment.

3. The Mission continues to take advantage of this new government willingness to enhance the competitiveness of Malawi's private sector. USAID is providing technical and logistical support for a private sector reform agenda led by the National Action Group NAG. The NAG is a tri-partite body made up of ministerial-level representatives from the GOM, CEOs of leading private investment and business organizations, and Heads of Missions and technical specialists from donor agencies working to make Malawi a better place to do business. The NAG is apolitical and seeks only to advance the development of the private sector to assist in alleviating poverty in Malawi. The NAG is a forum, not a formal organization - it has no legal basis or identity, but draws its mandate from its participants who are able to commit their respective organizations to specific activities that they jointly decide to pursue.

4. Rather than seeking to ensure that all disparate interests are directly represented, in a deliberate effort to keep the size of the group small and efficient, the NAG seeks to bring together the key decision makers that affect the national economic environment. However, to ensure accountability and representation of wider views, the NAG is developing mechanisms for consulting more widely with all stakeholders and for improved feedback processes. The NAG's forum is its bi-monthly meetings, with an emphasis on decision-making and reporting of action and progress. The method of working is businesslike, with participants held accountable for the commitments they make; and the style is informal, with first name terms for all members. Discussion has been robust, honest and constructive - it is not a forum to criticize other stakeholders, but controversial issues are discussed openly to promote achievement of the Group's private sector development objectives. This also involves events with wider stakeholders and an e-bulletin.

15. The NAG has achieved a number of successes through this improved dialogue. Many of these accomplishments have been centered around the development of the Malawi Economic Growth Strategy which has become a key document for the GoM on how to address problems with the development of a thriving private sector that can generate growth, jobs, exports, improved incomes and governmental revenues. Many of the solutions achieved to date have been incremental and opportunistic, but together they are working to improve the business climate in Malawi. Some examples include:

-a. Highlighting the uneven application of the rules on cross rates when converting one currency to another to pay international suppliers.

-b. Review of withholding tax implementation for smallholders to receive more equitable treatment in key sub-sectors.

-c. Raising the issue of license fees for electricity generation meant to apply only to those who generate electricity for sale, rather than for consumption. This problem has been resolved by legislation.

-d. Highlighting a list of pending applications for duty rebate by the Ministry of Finance for timely subsequent government action.

-e. Facilitating dialogue on the electricity crisis during the first quarter of 2004, increasing the focus for medium and longer-term energy solutions.

-f. Completing value-chain assessments of the priority sectors identified in the Malawi Economic Growth Strategy, including the three existing "core" sub-sectors for the economy i.e., tea, sugar and tobacco, and five high potential growth sub-sectors i.e., cotton, textiles and garments, agro-processing, mining and tourism.

-g. Spearheading the appointment of desk officers for key sub-sectors of the economy. The NAG has been instrumental in seeking the appointment of desk officers for key sub-sectors of the economy at Ministry of Commerce and Industry, and Ministry of Agriculture to act as primary points of contact in government for industry. Such desk officers are now in place for the textiles and garments, agro-processing, trade and cotton sub-sectors.

16. Comment: In the past, one of the major contributing factors to poor policy-making in Malawi has been the weak dialogue between public and private sectors at all levels. The Malawi Economic Growth Strategy and the National Action Group have attempted to address this weakness by providing a forum for a direct dialogue between key government decision makers and their private sector counterparts on key issues affecting the country's private sector growth and development. As a result of its initial successes, the NAG has progressively become the focal point for dialogue between government, private sector and donors on issues relating to private sector development in Malawi. The key challenge for the NAG will be to build on these initial successes to maintain the excellent results and momentum the Group has achieved to date.

GILMOUR